

# The Extent of Using Financial and Non-Financial Measures in Evaluating Branches Performance of Commercial Banks in Jordan

## A field Study According to Internal Auditors Viewpoint

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### Abstract

The aim of study is to identify the extent of using financial and non-financial measures in evaluating the performance of branches of commercial banks according to internal auditors viewpoint. To achieve this aim of, a questionnaire was developed and distributed to a targeted sample of (90) respondents, out of which (77) were approved for analysis and consideration, i.e. around 86% of distributed questionnaires. Frequencies and means were used to describe the study sample and (*t* test) was used at the degree of confidence (95%) to test the hypotheses of the study.

Among the most important findings, the study concluded that there is a use of financial measures in evaluating the performance of bank branches and not using non-financial measures in the evaluation. Based upon this result, a set of recommendations are to be conceded by the internal auditors including the need of administrations in Jordanian banks for more attention and support of non-financial measures in evaluating the performance of branches in the commercial banks.

**Keywords:** Financial, Non-financial measures, Performance Evaluation, Commercial banks.

### 1. Introduction

The prominent feature of scientific and technological progress of the current era results the process of opening up markets and convert them into a single market, and this is why the various companies and organizations seek to develop and distinguish their capabilities and productivities to remain competitive in the competition field. With the expansion of financial globalization and intense competition in the markets of the commercial banks to meet the customer's needs and the desire is to increase the provision of financial services to be better. This was reflected also on the policies of openness and expansion of the circle and the scope of banking business at the local and international levels on the activities of banks and moving towards providing banking services with new and advanced technological techniques.

The intense competition among commercial banks pushed them toward expansion and geographical spread in order to reach customers without any additional costs or additional effort on their burden, and work to provide distinctive banking services to meet different needs, whether in the use of their money or to finance their different projects, and offer special services in comfortable way.

On the other hand, the expansion of commercial banks to open branches would increase the size of the costs incurred by these banks, so it was necessary for administrations, which track the performance of its branches to ensure the feasibility of their business and their ability to achieve appropriate financial surpluses and proper continuity. Therefore it was necessary to use a number of financial and non-financial measures which enable the evaluation of the performance of branches of commercial banks in a transparent manner. That is, the aim of this study is to identify the extent of the use of financial and non-financial measures in the evaluation of commercial banks branches performance in Jordan.

### 2. Problem statement

The performance appraisal process in the branches of commercial banks has become essential to make sure that the work of these banks is in line with the set general strategy; therefore, the following questions were raised:

- 1-What is the extent of the financial measures usage to assess the performance of the branches of Jordanian commercial banks?
- 2-What is the extent of non-financial measures usage in order evaluate the performance of branches of Jordanian commercial banks?

### 3. Study importance

Financial and non-financial measures can be used at commercial banks in order to judge the efficiency of various departments in general and branches in particular, and upon which a number of policies is placed for the branches departments as policies of incentives and rewards, rehabilitation and development, etc., and here lies the importance of the study. In addition to that, these standards that can be used by the administration of the

Bank to keep or expand and possibly closing if there is no feasibility.

What distinguishes this study from other studies, according to the researcher, that it is first study focus on the non-financial measures to evaluate the branches performance of commercial banks in Jordan.

#### 4. Study objective

This study aims to:

- 1- Know the extent use of financial measures in order to evaluate the performance of branches of commercial banks in Jordan.
- 2- Identifying the extent of the usage of non-financial measures in order to evaluate the performance of branches of commercial banks in Jordan.

#### 5. Hypotheses of the study

Hypotheses of the study can be formulated as follows:

**H 1:** Financial measures are used in order to evaluate the performance of branches of commercial banks in Jordan.

**H 2:** Non-financial measures are used in order to evaluate the performance of branches of commercial banks in Jordan.

#### 6. Study methodology

The study relied on a descriptive method, and relied on two sources of data collection as follows:

- 1- Secondary sources: secondary data were obtained from previous studies, as well as references, books and periodicals in the same subject of the study.
- 2- Primary sources: obtained through a questionnaire which was designed for this purpose, consisting of two groups: the first includes questions describing demographics, and the second includes a set of questions related to the study hypotheses.

##### 6.1 Population and sample

The study population consists of all internal auditors working in all Jordanian commercial banks and that number is (13) banks, a random sample of (90) internal auditor was selected, the questionnaire was distributed to them. The number of received questionnaires was (77) and response rate is (86%), all of which are valid for analysis of the total questionnaires which are suitable for the process of statistical analysis.

#### 7. Background and previous studies

The concept of performance is considered the core concepts in business organizations in general and the financial and banking institutions, in particular, through which we can give a comprehensive picture of the activities of the organization and conduction of its business and the level of internal and external environment.

##### 7.1 The concept of performance

Performance is known as a reflection of the ability of the organization and its ability to achieve its goals (Eccles 1991), which is also a reflection of how to use the organization's financial and human resources and exploitation to enable them to achieve their goals (Miller & Bromiley, 1990). Robins & Wiersema (1995) defined it as the organization's ability to achieve its long-term goals, Wheelen & Hanger (2000) defined it as those desired results that the organization seeks to achieve.

##### 7.2 Evaluation of Performance

Performance evaluation defined as a stage of strategic management by which managers seeks to make sure that the strategic option is implemented correctly (Gluek & Jauch 1988), also it is defined as a measure of the work performed and compared to what it should be according to the preset plan. The concept of performance evaluation is a comprehensive objective specifying the strategies, policies and procedures to examine the results of the activities and effectiveness and compare plans and specific rules in order to detect positive and negative deviations and the statement of reasons and to ensure the efficient management of economic resources.

##### 7.3 previous studies

Non-financial performance measures are expressed in non-monetary units such as employee satisfaction and productivity. While financial measures are based on accounting information, and are expressed in monetary units, such as profit and return on investment. The process of measuring the performance of financial and non-financial information systems are used to assess individual and organizational performance of the banks. And organizations focus primarily on the usage of financial ratios as an essential tool for measuring the performance and conduction of the evaluation. (Norreklit 2000) has criticized some organizations for their adoption of the financial performance measures only, and for the fact that the process of determining financial performance measures is a simple matter because it is subject to the followed rules and guidelines that are given, and these rules and principles cannot be used for the non-financial performance measures (Speckbacher *et al.* 2003).

Therefore some organizations tended to blend financial performance measures with non-financial measures, and

the reason that the non-financial performance measures are comprehensive measurement systems, in order to provide management with relevant information about the general status of the organization (Zuriekat *et al.* 2011). Due to the belief that the usage of non-financial indicators will be better in the assessment and evaluation of the performance of the branch managers. These non-financial indicators are used to measure performance for the reliable prediction of the long-term performance, and help to re-focus on the management on long-term run. (Anderson *et al.* 1994). If non-financial measures are ignored and neglected in evaluating the performance, then decision-makers can deal with only a small portion of the available information (Kaplan & Norton 1996). Using the combination of information and tools for measuring the financial and non-financial is necessary to give the impression of a more balanced overall performance of the organization. (Hoque & James.2000; Laitinen 2002). Performance measurement systems provide useful information about the organization's results and financial results of its internal processes (Yeniyurt 2003), and different performance measures would be helpful in stimulating activities, and reducing the organization management failings (Hofman & Fieseler 2012), also provide support and approval that can be an indication of current or future performance (Hughes, 2000).

Some of the studies examined the relative usage of financial measures in comparison with non-financial measures concerning performance of the organizations, and showed that financial measures are likely to be used more than others when evaluating management performance, but the study of (Luft & Shields 2001) found that measurements of non-financial are weighted more in using for predicting financial future performance. Non-financial performance measures also considered customer satisfaction, product quality, or staff turnover which are important for the organization to assess the performance of branch managers, where management can use non-financial data and those based on accounting performance evaluation, and generally do not give measurements of non-financial intrinsic value for management, but considered the leading indicators, which provide information about future performance, which does not exist in the current accounting procedures (Banker *et al.* 2000).

The non-financial performance measures are considered key indicators of the future financial results, such as the major indicators that are considered important, especially when assessing the performance of administrative activities reflected on the financial return in the long run, but it nevertheless does not appear in the current accounting standards. And expected from both two relationships between non-financial performance and long-term financial return on the importance of non-financial measures to evaluate the performance (Hofmann, 2001). The fact that to get different results through a variety of studies can be explained by looking at the different determinants of usage a non-financial performance measures. (Nagar & Rajan 2001) examine the product quality in industrial companies, and found that changes in measurements reflect changes in revenues, and the use of measures of non-financial is considered to be beneficial to the organization, because they provide information on the long-term performance, which is not described in the short-term financial measures.

Management accounting researchers support the use of variety of performance measures in order to provide management with relevant information about the general situation of the organization. Several studies like (Fisher 1998; Burney & Matherly 2007) have suggested selection and use of financial and non-financial performance measures for organizations, and suggested the need to focus on participating in the development of a performance measurement system, (Adler & Reid 2008) Emphasized the need to participate in improving the quality of performance measurement system, in addition to the system choosing a set of performance measures which reflect the best user's requirements.

Ittner *et al.* (2003) studied the relationship between the performance measurement system, and economic performance, in addition to strategic performance. Results showed that the companies that operate more on the use of non-financial performance measures have greater satisfaction and higher market return than organizations that have similar strategies or entities that increase the value of their product or service.

Anderson *et al.* (1994) concluded that the non-financial indicators, such as the client, for example, is a key measure that determines the long-term performance of the organization, as they pointed out that if organizations worked to improve customer satisfaction, it will also improve the company's performance. Many studies has shown that non-financial performance is the reason, but not the result, as it affects all of the profit, and other financial measures, and internal processes, and innovation, and that are the determinants of financial performance in the future (Kaplan & Norton 1996).

Banker *et al.* (2000) mentioned that non-financial performance measures are better indicators to predict the future of the organization than financial measures, as there is great focus on traditional performance standards, such as return on investment or net profit, so that bring the attention to the factors of non-financial such as market share, customer satisfaction, efficiency, productivity, product quality, and employee satisfaction, and thus non-financial measures help in the identification and assessment of significant progress toward the goals of the work and achievements, in order to achieve the stated goals of the organization, but Nagar & Rajan (2001) concluded that non-financial measure is a key indicator of economic performance, and a potential source of information about cash flows in the future.

The manipulation of performance data reflects the administration's attempt to improve the financial performance

relative to the target budget as the accounting system indicates, instead of real performance. It was reported by a number of researchers that it is possible to improve financial performance through the homogeneity and forging some accounting data relating to the organization (Graham & Harvey 2005). In general, the financial measures looks as a target, while they considered standards of non-financial as voluntary orientations as in the cases of training staff or in cooperation and participation in policy development. Van der Stede (2000) suggests that the inclusion of measurements of non-financial can increase the rate of participation in performance evaluation, this is match with the findings of (Zewailef & Noor 2005) study which emphasized the need to adopt established means and common language to be used by the workers through the development of variety performance measures to evaluate the strategic performance of the organization.

### 8. Statistical analysis and hypothesis testing

The Statistical Package for Social Sciences program has been used (Statistical Package for Social Sciences (SPSS)) in the analysis of the data collected, the choice of the appropriate method of analysis depends mainly on the type of data to be analyzed and the nature of the hypotheses to be tested, the study used descriptive statistics methods in order to make a comparison among the responses of the study sample, the means was used, one of the measures of central tendency and the standard deviation is one of the measures of dispersion to measure the dispersion of the answers around the averages for the various statements of questionnaire. (*t* test) was used and at the level of significance (95%) to test the hypotheses of study.

#### 8.1 Validity and reliability

In order to verify the clarity and the understandability of the questionnaire, the questionnaire was presented to a group of professors specialized in the accounting departments in Jordanian universities, and the questionnaire statements was amended based on their suggestions, to measure of stability, reliability coefficient has been calculated using (Cronbach's alpha) coefficient, Which was found to equal approximately (72%), and the reliability rate is acceptable for the purposes of scientific research, if exceeded (60%).

#### 8.2 Characteristics of study Sample

Table (1) shows the characteristics of the study sample as follows:

Table: 1 Description of the study sample

DESCRIPTION		FREQUENCY	RELATIVE FREQUENCY
GENDER	MALE	72	93.5
	FEMALE	5	6.5
AGE	20-29	5	6.5
	30-39	33	42.9
	40-49	32	41.6
	50 and more	7	9.1
Qualification	Mdm diploma	5	6.2
	BA	53	68.8
	MA	15	19.5
	PHD	4	5.5
EXPERIENCE	1-4 YRS	10	13.0
	5-9 YRS	45	58.4
	10 YRS AND MORE	22	28.6

Table (1) shows that the majority of respondents are males with 93.5% and 6.5% for females. The age group for most of the respondents were (30-39), and the lowest percentage is for age groups which is (20-29) with 6.5%. Bachelor's degree holders have a highest percentage of 68.8% PhDs holders have the lowest percentage by 5.5%. T the majority of the study sample have 5- 9 years experience and by 58.4%, and the lowest percentage is for 1-5 category with 13%.

#### 8.3 Description of the study sample Answers

Tables (2, 3) display a description of the study sample answers using the mean and standard deviation of the sample answers for each statement in the questionnaire, as well as the order of each statement according to the arithmetic mean.

Table: 2 The usage of financial measures in assessing the performance of commercial bank branches

No	Question	Mean	Std. dev	Rank
1	Uses a measure of the total income of the branch in evaluating the financial performance of the branch	4.21	0.986	3
2	Uses a measure of the net income of the branch in the evaluation of the financial performance of the branch	4.35	0.865	2
3	Uses a measure of net return on assets of the branch in evaluating the financial performance of the branch	3.78	1.175	5
4	uses measure of working cash flow to assess the financial performance of the branch	4.67	0.935	1
5	Uses a measure of the value of customer deposits in evaluating the financial performance of the branch	3.45	1.107	7
6	Uses a measure of the value of granted loans in assessing the financial performance of the branch	3.75	1.165	6
7	Uses measure of the size of the commissions in evaluating the financial performance of the branch	4.12	0.936	4

The table number (2) shows that all the above statements covered by the questionnaire on the use of financial measures in assessing the performance of branches of commercial banks are used by administrations of Jordanian commercial banks, because the mean of all the statements was greater than (3). Where statement No. (4) Which states "uses measure of operating cash flow to assess the financial performance of the branch" obtained the highest percentage where the mean was (4.67) and the standard deviation of (0.935). Statement (5) which states "uses measure of the value of customer deposits in evaluating the financial performance of the branch" obtained the lowest order where the mean was (3.45) and the standard deviation is (1.107).

Table( 3) below shows the statements covered by the questionnaire and the use of non-financial measures in evaluating the performance of branches of commercial banks used by public administrations of Jordanian commercial banks and other statements were unused, Where statement No. (1) Which states "uses measure of the number of clients in the assessment of non-financial performance of the branch" obtained the highest percentage where the mean was (3.18) and the standard deviation of ( 0.956 ) With regard to statement No. (6) Which states ' Uses the number of branch client's measure to assess the non-financial performance of the branch "obtained the lowest percentage where mean was (1.08) and standard deviation was (2.205)

Table: 3 The use of non-financial measures in evaluating the performance of branches of commercial banks.

No	Question	mean	Std. dev	Rank
1	Uses a measure of the number of clients in the assessment of non-financial performance of the branch	3.18	0.956	1
2	Uses a measure of the number of training courses in the evaluation of non-financial performance of the branch	2.06	1.875	4
3	Uses a measure of the contribution of the branch to support social activities in the assessment of non-financial performance of the branch	3.02	1.387	3
4	Uses measure of quality of the service provided in the evaluation of non-financial performance of the branch	1.78	1.979	6
5	uses the quick customers service measure provided in the evaluation of non-financial performance of the branch	3.29	1.067	2
6	Uses the number of branch clients measure to assess the non-financial performance of the branch	1.08	2.205	7
7	Uses a measure of the number of customer complaints against the branch in the evaluation of non-financial performance of the branch	1.15	1.965	5

### 9. Test hypotheses of the study statistically

To select the appropriate method testing the hypotheses of the study, the Kolmogorov-Smirnov (K-S) test is applied on the averages of responses which have been obtained to see if they are subject to the normal distribution, the results of the test presented in Table (4) shows that all responses are subject to the normal distribution.

Table: 4 Distribution of the study sample averages Answers

	Significance level of $\alpha = 0.05$	Form of distribution
Mean of the first (H0)	0.35	Normal
Mean of the second (H0)	0.27	Normal

### 9.1 Hypothesis Testing

For the purposes of testing hypotheses of the study. ( $t$  test) was used at the degree of confidence (95%) and that if the value of ( $\alpha$ ) is less than or equal to (0.05) the hypothesis will be accepted. otherwise, we reject the hypothesis and accept the null hypothesis. the results of testing hypotheses are as follows:

### 9.2 The Results of Testing H1

Test T per sample has been used and One Way T-Test for the first hypothesis of the study is shown in Table (5) below, which states, " financial measures is used in order to evaluate the performance of the branches of Jordanian commercial banks" .the level of significance ( $\alpha$ ) is less than (0.05) and this means accepting the hypotheses, and we can say that there is a use of financial measures in evaluating the performance of branches of commercial banks in Jordan.

Table: 5 The first hypothesis test:

The level of significance ( $\alpha$ )	Result of the hypothesis
0.035	Acceptance

### 9.3 The Results of Testing H2

Test T per sample has been used and One Way T-Test for the second hypothesis of the study is shown in Table (6) below, which states " non-financial measurements are used in order to evaluate the performance of the branches of Jordanian commercial banks" the level of significance ( $\alpha$ ) is greater than (0.05) and this means rejecting the hypothesis and accepting the null hypothesis, and we can say that there is no use of non-financial measures in evaluating the performance of branches of commercial banks in Jordan.

Table: 6 The second hypothesis test

The level of significance ( $\alpha$ )	Result of the hypothesis
0.12	Rejection

## 10. Results and recommendations

### 10.1 Results

1- Financial measures are used in evaluating the financial performance of the branches of Jordanian commercial banks and these measures include net income of the branch, the return on the assets of the branch, the amount of working cash flow for the branch, the value of branch customer deposits, the value of loans granted by the branch, the size of the commissions earned by the branch.

2- There is a set of non-financial measures that are used in the evaluation of non-financial performance of the branch and these standards is a measure of the number of branch clients, the contribution of the branch in support of social activities, speed of service provided.

3- There is a set of non-financial measures that are not used in the evaluation of non- financial performance of the branch and these measures is the number of customer complaints, the number of audit clients, the quality of service provided, and the number of training courses.

### 10.2 Recommendations

1-Despite of the use of several financial measures in assessing the performance of branches of commercial banks, the researcher recommends the expansion and development of these measures in order to enable banks to draw a clear banking strategies and the expansion in the size of the banks' activities in the future.

2-The need to adopt financial performance and comprehensive indicators as a sound basis for performance evaluation in order to create a balance among strategic objectives.

3-Increased attention to non-financial measures and expanding their use in evaluating the performance of the branches of Jordanian commercial banks, to improve its competitive position compared to other banks and branches.

4- Increase attention to the perception of internal auditors in commercial banks to diversify and develop their creative abilities regarding measurements indications to keep pace with the era of information technology in order to provide methods and measurement indicators to enable senior management to evaluate the strategies pursued and takes appropriate decisions to achieve these strategic in light of the changes surrounding commercial banks.

5-The need for further studies addressing the use of financial and other non-financial measures, in addition to conduct further studies on the level of branches of other commercial banks. Also it is possible to address the Jordanian Islamic bank branches by carrying out studies to evaluate its performance.

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